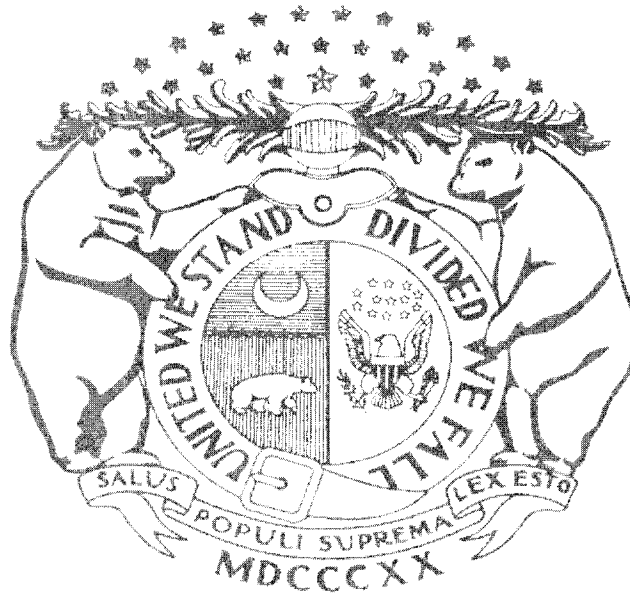


REPORT OF  
FINANCIAL EXAMINATION  
OLD RELIABLE CASUALTY COMPANY



AS OF  
DECEMBER 31, 2004

STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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March 3, 2006  
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner  
Bureau of Insurance  
Virginia State Corporate Commission  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director  
Department of Insurance  
State of Ohio  
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sirs/Madam:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of:

**Old Reliable Casualty Company**

hereinafter referred to as such or as "ORCC" or as the "Company." The Company's statutory home office is located at 12115 Lackland Road, St. Louis, Missouri, telephone number (314) 819-4300. This examination began on September 6, 2005 and concluded on March 3, 2006.

**SCOPE OF EXAMINATION**

**Period Covered**

The last full scope association financial examination of the Company was made as of December 31, 2001, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2004.

## **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

## **COMMENTS PREVIOUS EXAMINATION**

The comments and recommendations of the previous examination report, made as of December 31, 2001, are listed below. The Company's response to these items and the current findings related to the 2001 comments and recommendations are also documented below.

### *Comment: Disaster Recovery Plan*

"It is recommended that the Company update and regularly test its business continuity/disaster recovery plan. Without a current plan, improved via periodic walk-through/restoration testing, the contingency planning process has diminished value because a variety of unforeseen problems may arise that have not been 'refined out' of the recovery process."

### *Company Response:*

"The Company has updated its business continuity/disaster recovery plans. During the period of October 4-5, 2003, the Company completed a test of its disaster recovery plan. Except for certain issues which the test identified, the test was substantially successful. A second test was scheduled and performed in December to address these issues. This test was completed successfully. The Company plans to perform and test its disaster recovery plans at least on an annual basis."

### *Current Findings:*

No concerns were noted in this area in the current examination.

## **HISTORY**

### **General**

On December 18, 1978, The Reliable Life Insurance Company formed Old Reliable Casualty Company as a wholly owned subsidiary. The Company received its certificate of authority on December 29, 1978, from the Missouri Department of Insurance to operate as a stock casualty company authorized to write property and casualty insurance under Chapter 379 RSMo (Insurance Other Than Life).

In 1981, The Reliable Life Insurance Company sold the Company to Clayton Holdings Corporation, a subsidiary of Capitol County Mutual Fire Insurance Company (a Texas county mutual). In 1986, Clayton Holdings Corporation transferred all the stock of the Company to Capitol County Mutual Fire Insurance Company. Capitol County Mutual Fire Insurance Company then contributed \$1,000,000 to Old Reliable Casualty Company's surplus.

## Capital Stock

At December 31, 2004, the Company had authority to issue 500,000 shares of common stock with a par value of \$10 per share. There were 250,000 shares issued and outstanding at December 31, 2004. Capitol County Mutual Fire Insurance Company owned all outstanding shares.

## Dividends

The Company has not paid any stockholder dividends since its inception.

## Management

In accordance with the Company's Bylaws, Old Reliable Casualty Company is managed by a Board of Directors consisting of nine members. The members serving at December 31, 2004, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Jack Armstrong	Retired
James W. Chomeau	Self-Employed
Stuart G. Chomeau	Self-Employed
James J. Collins	President, Old Reliable Casualty Company
Donald A. Hirschfeld	Vice President, The Reliable Life Insurance Company
Richard J. Miller	Vice President, Capitol County Mutual Fire Insurance Company
Harry G. Pillow	Chairman, Capitol County Mutual Fire Insurance Company
James F. Seidler	Vice President, Capitol County Mutual Fire Insurance Company
Ruth A. Williams	Retired

The Company's By-Laws state that the officers of the Company shall be a Chairman of the Board, President, such Vice Presidents as may be designated by the Board of Directors, a Treasurer and a Secretary. The Board of Directors may appoint one or more assistants to the Vice Presidents, Treasurer and Secretary as the board deems appropriate. Officers elected/appointed and serving at December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Harry Grant Pillow	Chairman of the Board
James Joseph Collins	President
James Francis Seidler	Secretary & Treasurer
Richard John Miller	Executive Vice President
Steven Dale McGinley	Vice President, Chief Financial Officer
Mark Xavier Steinlage	Vice President
Roger Raymond Popovac	Vice President

The Company's By-Laws allow the Board of Directors to appoint committees for any purpose or purposes, as they deem necessary. The members of the established committees serving as of December 31, 2004, were as follows:

Executive Committee

James J. Collins  
Richard J. Miller  
Harry G. Pillow  
James F. Seidler

Investment Committee

Charles T. Cazzaniga  
James W. Chomeau  
Stuart G. Chomeau  
James F. Seidler

It was noted that the membership of the Board of Directors and elected Officers changed significantly in March 2005. The membership was changed to more closely resemble that of other Unitrin affiliates. Subsequent to March 2005, all Directors and Officers of Old Reliable Casualty Company are also Directors or Officers of other Unitrin, Inc. affiliates.

**Conflict of Interest**

The Company has a corporate Business and Ethics Policy outlining the responsibilities and expectations of employees. The Company also requires directors, officers and key employees to execute conflict of interest disclosure statements annually. A review of the disclosure statements for period under examination disclosed no significant conflicts of interest.

**Corporate Records**

Shareholders' and Board of Directors' meeting minutes were reviewed for the period under examination. The minutes appeared to properly support and approve the corporate transactions and events for the period under examination.

No significant changes were made to the Company's Articles of Incorporations during the period under examination. The Bylaws, however, were restated in the first quarter of 2005. Amendments were made to make the Bylaws more consistent with the governing documents of other Unitrin, Inc. affiliates.

**Acquisitions, Mergers and Major Corporate Events**

There have been no significant acquisitions, mergers or major corporate events during the current examination period that directly impact Old Reliable Casualty Company.

**Surplus Debentures**

The Company has not issued any surplus debentures.

## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

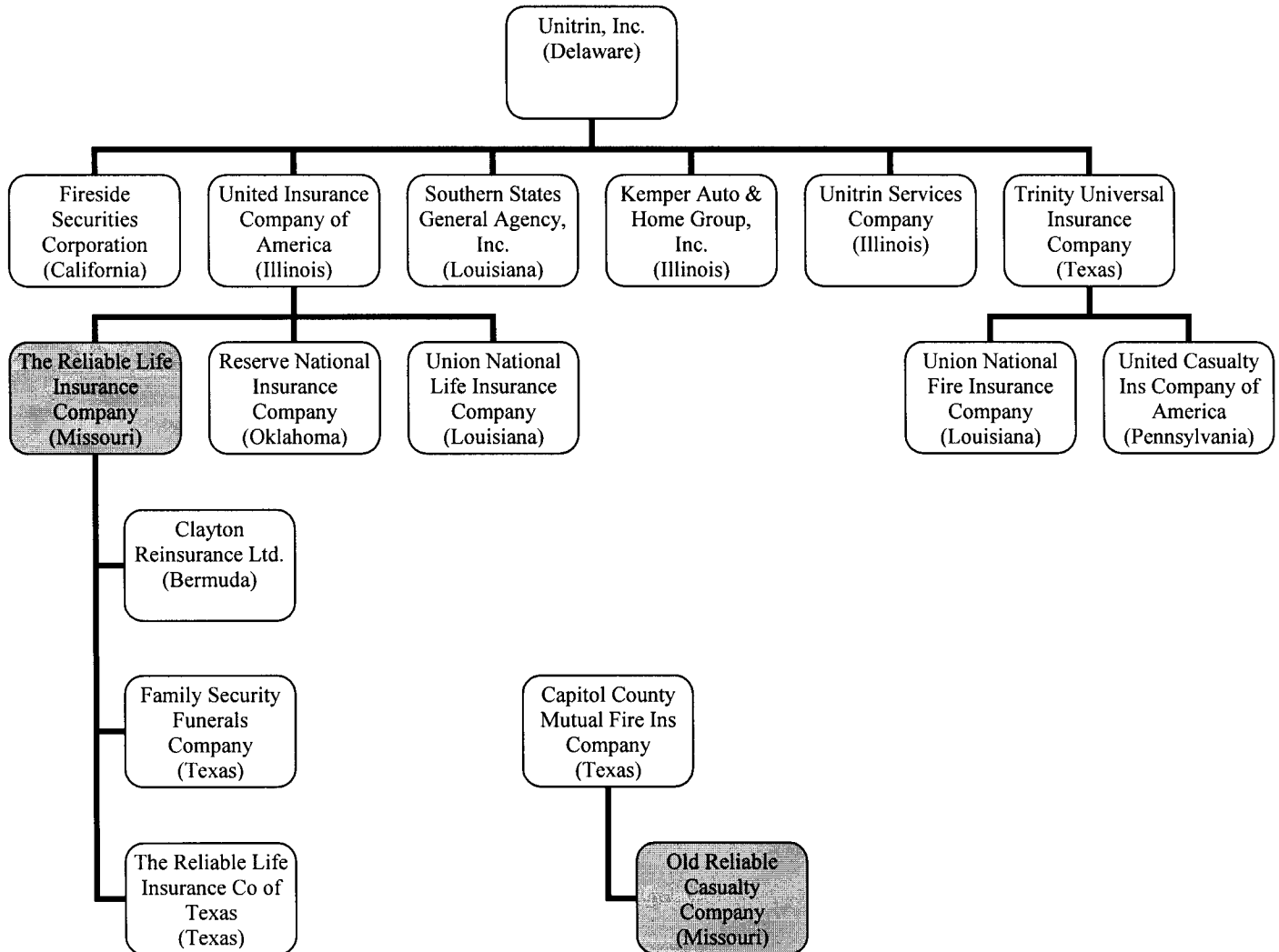
The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The ultimate controlling entity in the holding company system is Unitrin, Inc. Although Unitrin, Inc. does not directly own Old Reliable Casualty Company, the Companies are affiliated by virtue of a management services agreement between ORCC's parent, Capitol County Mutual Fire Insurance Company, and Reliable Life Insurance Company, a wholly-owned subsidiary of Unitrin, Inc. In addition, both Unitrin and the Company have common directors and officers who control the Company. Prior to March 2005, the Company disagreed that it was affiliated with or controlled by Unitrin, Inc. However, subsequent to the election of common directors and officers, and the amendment to its Bylaws, the Company has acknowledged that it is now affiliated with the Unitrin holding company system and that Unitrin, Inc. is the ultimate controlling entity. An amended 2004 Form B was filed with the Missouri Department of Insurance on May 26, 2005, documenting this acknowledgement.

The Unitrin holding company system consists of insurance and finance companies which serve clients in markets across the United States. The group services more than 6 million policyholders and consumer finance customers through a nationwide network of career agents, independent agents and loan representatives. The Unitrin group is a financial services provider that specializes in property and casualty, life, health and accident insurance as well as consumer finance products. In 2004, the Unitrin group held over \$8 billion in assets and employed nearly 8,500 associates.



## Organizational Chart

The following organizational chart depicts a portion of the Unitrin, Inc. holding company system of which Old Reliable Casualty Company is directly a part. All subsidiaries are wholly owned. Capitol County Mutual Fire Insurance Company and Old Reliable Casualty Company are affiliated with the Unitrin group by virtue of a Management Services Agreement, giving Unitrin, Inc. control of these companies.



## **Affiliated Transactions**

The Company has entered into various agreements with affiliates including:

1.     Type:       Service Agreement  
      Parties:    Old Reliable Casualty Company and The Reliable Life Insurance Company  
      Effective:   July 1, 1986, revised January 1, 2000  
      Terms:     The Company is party an agreement with The Reliable Life Insurance Company (TRLIC) whereby TRLIC provides all services required to assist in the proper and efficient operation of ORCC's businesses. Old Reliable Casualty Company reimburses TRLIC for expenses incurred on their behalf on an actual cost basis. Costs include specific identifiable costs and allocated costs. ORCC paid fees of \$2.8 million to The Reliable Life Insurance Company for providing these services in 2004.

The service agreement contains a provision stating that a service fee is to be charged if ORCC has net income (before federal and foreign taxes and excluding net realized capital gains or losses for the year). The fee, if applicable, is the lesser of a 12% override on the reimbursable costs or 90% of the company's net income. No service fees have been charged, however, during the period under examination. The Companies should amend this agreement to make it more consistent with cost sharing agreements between other Unitrin, Inc. affiliates and eliminate the provision for the service fee as costs can be determined through the companies' allocation process.

2.     Type:       Consolidated Income Tax Allocation Agreement  
      Parties:    Old Reliable Casualty Company and Capitol County Mutual Fire Insurance Company  
      Effective:   December 31, 1994  
      Terms:     The agreement provides that the tax liability apportioned to each participant is based on the relative federal income tax liability each company would have incurred on a separate company basis. Estimated payments or refunds will be made quarterly, with a final settlement within 30 days of filing the combined return or receipt of refund.

## **FIDELITY BOND & OTHER INSURANCE**

Old Reliable Casualty Company is a named insured on a fidelity bond providing coverage against losses due to dishonest or fraudulent employee acts with a limit of liability of \$25,000,000 and a deductible of \$500,000. The fidelity bond meets the suggested minimum coverage recommended by the NAIC. The deductible appears commensurate with the Company's financial position.

The Company is also provided coverage as a named insured on additional policies purchased by Unitrin, Inc. This coverage includes: general liability, insurance company errors and omissions, directors and officers liability and property loss.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company does not have any employees. All personnel services are provided by The Reliable Life Insurance Company through the Service Agreement as described above.

## **STATUTORY DEPOSITS**

### **Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, are reflected below. The deposit had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 379.098 RSMo (Securities deposit) and Section 375.460 RSMo (Deposits with director):

	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	\$ 250,000	\$ 261,845	\$ 261,932
US Treasury Note	250,000	253,653	260,670
US Treasury Note	250,000	257,735	249,570
US Treasury Note	250,000	248,458	250,342
US Treasury Note	<u>642,000</u>	<u>633,147</u>	<u>629,765</u>
<b>Total</b>	<u>\$ 1,642,000</u>	<u>\$ 1,654,838</u>	<u>\$ 1,652,279</u>

### **Deposits with Other States**

The Company has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2004, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	US Treasury Notes	\$ 100,000	\$ 107,258	\$ 99,382
Louisiana	US Treasury Notes	20,000	21,452	19,876
South Carolina	US Treasury Note	175,000	187,810	176,146
Texas	US Treasury Bond	<u>60,000</u>	<u>83,077</u>	<u>75,499</u>
<b>Total</b>		<u>\$ 355,000</u>	<u>\$ 399,597</u>	<u>\$ 370,903</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance other than life) as a multiple line carrier to write fire and allied lines, homeowners multiple peril and auto liability insurance. The Company is licensed in the following eleven states:

Arkansas	Kansas	South Carolina
Illinois	Louisiana	Tennessee
Indiana	Missouri	Texas
Iowa	Oklahoma	

### Policy Forms & Underwriting; Treatment of Policyholders; Advertising & Sales Materials

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The most recent examination report was closed with a Cure Order by the Director of the Missouri Department of Insurance in April 2000. The report did not contain any findings having a material impact on the Company's financial statements. The Company has not experienced a significant number of complaints against it since the 2000 examination (as filed with the Missouri Department of Insurance). The Company has averaged approximately 12 Missouri complaints per year during the period covered under this examination.

The Company does no advertising. All business is generated through The Reliable Life Insurance Company's career agency force. The agency force consists of approximately 950 field representatives and assistant managers, all of whom are under the direction of 36 district managers. Generally, each of the agents is licensed to sell both the life and health products of The Reliable Life Insurance Company and the property and casualty products of Old Reliable Casualty Company.

## REINSURANCE

### General

Direct written, assumed and ceded premium for the current examination period was as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Direct Business	\$ 11,193,696	\$ 10,630,035	\$ 10,223,785
Reinsurance Assumed	19,435	20,809	17,185
Reinsurance Ceded	<u>7,913</u>	<u>24,368</u>	<u>26,921</u>
<b>Net Premiums</b>	<b><u>\$ 11,205,218</u></b>	<b><u>\$ 10,626,476</u></b>	<b><u>\$ 10,214,049</u></b>

**Assumed**

The Company does not assume any reinsurance directly from other insurance carriers. The assumed reinsurance shown above relates to the Company's participation in mandatory state insurance pools.

**Ceded**

The Company participates in a catastrophe reinsurance program with its affiliates. The program is intended to provide coverage for a worst-case loss scenario. Coverage is provided on a group retention basis through an intermediary, with multiple reinsurers participating in the program. Old Reliable Casualty Company does not take any reserve credit in its financial statements related to this reinsurance coverage.

**Career Agency Companies Group Coverage (\$35 million excess of \$8 million retention)**

Old Reliable Casualty Company participates in a Catastrophe Excess of Loss Reinsurance Contract with some of its affiliates (United Casualty Insurance Company of America, Union National Fire Insurance Company and Capitol County Mutual Fire Insurance Company), collectively referred to as the Career Agency Companies Group. The Career Agency Companies Group retention is \$8,000,000 per loss occurrence. The contract provides two layers of coverage. The first layer provides coverage of 100% of each loss occurrence exceeding \$8,000,000 with a reinsurer limit of \$12,000,000 each occurrence (\$24,000,000 all occurrences). The second layer provides coverage of 100% of each loss occurrence exceeding \$20,000,000 with a reinsurer limit of \$15,000,000 each occurrence (\$30,000,000 all occurrences).

**Unitrin, Inc. Coverage (\$125 million excess of \$35 million retention)**

The Career Agency Companies Group also participates with Unitrin, Inc. in a Property Catastrophe Excess of Loss Reinsurance Contract. The Career Agency Companies Group and Unitrin, Inc. are provided per occurrence coverage in excess of \$35,000,000 with a reinsurer limit of \$55,000,000 each occurrence (\$110,000 all occurrences).

A second layer of per occurrence coverage is provided the companies in excess of \$90,000,000, with a reinsurer limit of \$35,000,000 each occurrence (\$70,000 all occurrences).

## **ACCOUNTS AND RECORDS**

### **General**

The Company uses modified commercially written mainframe policy and claims administration systems, as well as a commercially written general ledger software system (Oracle).

### **Independent Auditor**

The Company's financial statements were audited by the independent CPA firm Deloitte & Touche, LLP as part of the Unitrin, Inc. company-wide audit for the years ending 2000 to 2004. A separate audit report and opinion was provided for The Reliable Life Insurance Company. A review was made of the workpapers of the 2004 CPA audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

### **Independent Actuary**

Claims related reserves and other actuarial items were reviewed and certified by Ronald E. Greco, FCAS, MAAA, Vice President and Corporate Actuary of Unitrin Services Company.

Consulting actuary, Glenn Tayler, ACAS, MAAA, of Taylor-Walker & Associates, Inc. was retained by the Missouri Department of Insurance to review the adequacy of the Company's reserves.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the examination workpapers.

## ASSETS

	Ledger and Non- Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 7,586,611		\$ 7,586,611
Common stocks	1,668,429		1,668,429
Cash and short term investments	68,384		68,384
Investment income due and accrued	83,802		83,802
Premiums in course of collection	229,304	37,403	191,901
Net deferred tax asset	31,944	31,944	0
Guranty funds receivable or on deposit	48,701	48,701	0
Accounts receivable	84,734		84,734
Suspense items	<u>359</u>	<u>-</u>	<u>359</u>
Total Assets	<u>\$ 9,802,268</u>	<u>\$ 118,048</u>	<u>\$ 9,684,220</u>

## LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 885,143
Reinsurance payable on paid losses	21,448
Loss adjustment expenses	86,951
Commissions payable and similar charges	206,362
Other expenses	378,001
Taxes, licenses and fees due or accrued	73,399
Current federal and foreign income taxes	2,084
Unearned premiums	489,840
Advance premiums	212,712
Amounts withheld or retained by company for others	50,324
Remittances and items not allocated	125,563
Payable to affiliates	1,361
Accounts payable	<u>4,125</u>
Total Liabilities	\$ 2,537,313
Common capital stock	\$ 2,500,000
Paid in and contributed surplus	6,500,000
Unassigned funds (surplus)	<u>(1,853,093)</u>
Total Capital and Surplus	\$ 7,146,907
Total Liabilities and Capital and Surplus	<u>\$ 9,684,220</u>

## STATEMENT OF INCOME

Premiums earned	\$ 11,174,510	
Losses incurred	6,333,597	
Loss expenses incurred	345,070	
Other underwriting expenses incurred	<u>4,721,862</u>	
Net Underwriting Gain (Loss)		\$ (226,019)
Net investment income earned	326,090	
Net realized capital gains (losses)	<u>8,976</u>	
Net Investment Gain (Loss)		335,066
Miscellaneous Income	<u>138</u>	
		<u>138</u>
Net income before dividends and federal income taxes		\$ 109,185
Federal income taxes incurred		<u>(6,362)</u>
Net Income		<u>\$ 115,547</u>

## CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year		\$ 6,941,626
Net income	115,547	
Change in net unrealized captial gains (losses)	86,193	
Change in nonadmitted assets	37,653	
Change in net deferred income tax	<u>(34,112)</u>	
Change in surplus as regards policyholders		<u>205,281</u>
Surplus as regards policyholders, December 31, 2004		<u>\$ 7,146,907</u>



## **EXAMINATION CHANGES**

None

## **NOTES TO FINANCIAL STATEMENTS**

None

## **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

### Service Agreement with The Reliable Life Insurance Company

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The Company should amend its Service Agreement with The Reliable Life Insurance Company to make it more consistent with cost sharing agreements between other Unitrin, Inc. affiliates and eliminate the provision for the service fee as costs can be determined through the companies' allocation process.

## **SUBSEQUENT EVENTS**

The Company restated its Bylaws and elected almost all new members to the Board of Directors and officers in the first quarter of 2005. These transactions were performed to align the Company's governing documents and officers with those of other Unitrin, Inc. affiliates. Subsequent to these transactions, the Company has acknowledged its affiliation with the Unitrin holding company system and recognizes Unitrin, Inc. as the ultimate controlling entity.

On December 27, 2005, the Company filed a Form D Holding Company Registration Statement with the Missouri Department of Insurance, requesting approval to enter a 100% quota share reinsurance agreement with its affiliate, Trinity Universal Insurance Company (Trinity). The terms of the agreement call for Trinity to assume 100% of contracts of insurance written by ORCC prior to the effective date of the agreement, as well as 100% of those written after the effective date, net of any in-force or new third party reinsurance acquired by ORCC. At the initial inception date of the contract, Trinity will receive cash or securities equal to the reserves established by ORCC. The Missouri Department of Insurance approved the reinsurance agreement January 26, 2006.

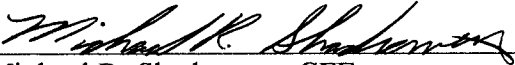
### ACKNOWLEDGMENT

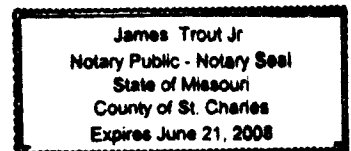
The assistance and cooperation extended by the officers and the employees of Old Reliable Casualty Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John M. Boczkiewicz, CPA, CFE, Thomas Cunningham, CPA, CFE, Arthur L. Palmer, AFE, Maipandi Obeth and John Rehagen, examiners representing the Missouri Department of Insurance, participated in this examination.

### VERIFICATION

State of Missouri    )  
                              ) ss  
County of St. Louis)

I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

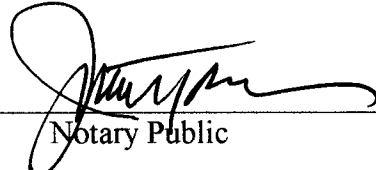
  
Michael R. Shadowens, CFE  
Examiner-in-Charge  
Missouri Department of Insurance



Sworn to and subscribed before me this 19 day of APRIL, 2006.

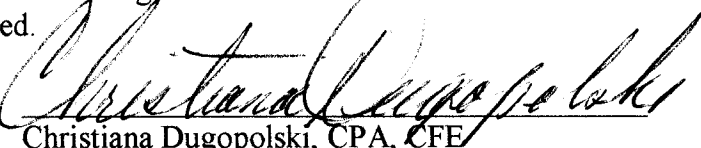
My commission expires:

\_\_\_\_\_

  
Notary Public

### SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Christiana Dugopolski, CPA, CFE  
Audit Manager, St. Louis  
Missouri Department of Insurance  
Midwestern Zone, National Assoc. of Ins. Commissioners